



Defense Focus



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Australian Defense and Security Market Update

August 2006

Market background information for U.S. companies supplying the defense and security industries

Welcome to the third issue of **Defense Focus**, produced for U.S. companies interested in the possibility of exporting their products *Down Under*.

On the radar since the last issue we see a few persistent objects on the screen - and some that appear only briefly - and which could go unnoticed if our antennae weren't built in the United States.

- There was a Federal Budget – always a big item, and in which Defense and national security again featured strongly.
- There was intense interest in unmanned vehicles, particularly in unmanned aerial vehicles.
- Artillery lobbed a few salvos over the horizon, possibly because of Army Project Land 17 – a new breed of howitzers to enter service in 2012.
- Heavy metal items from the United States include soon-to arrive Mark 48 torpedoes, Abrams main battle tanks, and C-17s. There's no truth in the rumor that the Collins Class submarines will have greatly enhanced crash diving capability once the torpedoes are housed.
- There were numerous reports about substandard clothing worn by Australian soldiers in action. There was enough substance in the allegations for Defense Minister Nelson to commission a report on the subject.
- And lots more. Read on.

Thank you to those readers who asked to be put on the circulation list, and to those who sent us notes of support. But our greatest moment since we last sat down to put Defense Focus together came when a trade contact told us his company was pulling some “foreign” equipment out of Australian ships and putting in U.S. gear. According to him, operators were delighted. So were we.

Here are some details about what's been going on. Remember – the real action is participating in the USCS programs to help U.S. exporters find business around the globe. That's why we call ourselves:

Your Global Business Partner

Check out the market with the USCS! For information about our selected best prospect industries, contact the U.S. Commercial Service at sydney.office.box@mail.doc.gov or visit our web site at URL: www.buyusa.gov/australia

Good hunting!

THE 2006-2007 DEFENSE BUDGET

In a newsletter message [*Defence Direct*], Defense Minister Brendan Nelson wrote about this year's budget:

After restoring the Budget to a position of strength, the 2000 Defense White Paper committed the Government to an average 3% real growth in Defense spending for each of the next ten years (to 2010-11). Now, the Government has decided to continue to increase Defense spending by 3% in real terms every year, right out until 2015-16.

As a result of this ongoing commitment, the Defense budget will be A\$19.6 [US\$14.8] billion this year ... and a projected \$26.7 [US\$20] billion by 2015-16.

For those who find it difficult to "picture" Defense, we have made available a 16- page booklet, which puts the Budget in context and includes pictures and simple explanations.

If you would like a copy, contact USCS Sydney at Sydney.office.box@mail.doc.gov

SO, WHAT'S IN THE BUDGET?

With Australia now having 10,000 defense personnel reporting to be serving overseas, expenditure has been geared towards a rapidly deployable and more mobile military capability.

The ever-present spectre of war without frontiers has provided funding for increased maritime border surveillance and protection.

In summary:

- \$3.7 billion has been set aside for the reduction of different ADF helicopter types
- Both Army and Navy will eventually fly Eurocopter NH-90 derivatives – making Australia and New Zealand the largest global market outside of Europe
- Improvements to the naval surface fleet, including better mine countermeasures and undersea warfare detection
- The upgraded 'Anzac'-class frigates are to be enhanced with an additional new air search

radar system, set to replace the SPS-49 volume search radar.

- Army will receive a boost for its battlefield command system
- Enhanced ground based air defense capabilities, beyond the current man-portable RBS-70s – either enhancements or a new acquisition
- Further unspecified upgrades for the 'Wedgetail' AEW&C aircraft following initial delivery in February 2007
- A large investment will be made in new and/or upgraded satellite infrastructure.
- There will be a new acquisition contract in 2006-07 for Army 155mm artillery.
- An expansion of the control and coordination of all operational responses to civil maritime security threats
- There will be funding for a multi-agency, anti-illegal fishing plan with the objective of doubling the number of illegal fishing vessel apprehensions
- Adding to previous Budget initiatives, key additional northern border protection improvements being funded in 2006-07 include:
 - A new long-rang helicopter rapid response capability to respond to foreign vessel landings
 - An increase in coastal aerial patrols (predominantly at night) to target illegal fishing
 - Intelligence support for onshore surveillance and interdiction will be increased to provide greater support for policy, intelligence and enforcement agencies engaged in fisheries compliance and maritime enforcement
 - A dedicated patrol and response vessel will be stationed in the northern Great Barrier Reef
 - A twelve-month trial of a rangers program will be established using local indigenous communities to monitor bio-security risks from illegal foreign fishermen

- Customs patrol boats will have an increase in training and equipment to improve boarding capability through risk reduction
- A project team will be set up to bring forward the replacement of Australian Customs fleet

Some specific defense projects approved for funding include:

JP 2077, Phase 2D – Improved logistics information systems
 JP 2085, Phase 2 – Explosive ordnance
 JP 2097, Phase 1 – Project Redfin - enhancements to special operations capability
 JP 5408, Phase 3 – ADF navigation warfare capability
 Sea 1439, Phase 3B.2A – ‘Collins’ submarines improvement program
 Land 53, Phase 1BR – Night fighting replacement gear
 Land 146, Phase 2 – Combat identification for land forces
 Air 6000, Phase 2A/2B – JSF follow-on development
 Air 8000, Phase 1 – C-130H refurbishment or replacement;
 Air 8000, Phase 2 – medium airlift capability
 Air 9000, Phase 3 – ‘Seahawk’ mid-life upgrade
 Air 9000, Phase 7A – Navy helicopter training system
 JP 126, Phase 2 – Joint theatre distribution system
 JP 2030, Phase 8 – Joint command support environment
 JP 2048, Phases 4A/4B – Large amphibious ships
 JP 2077, Phase 2B – Improved logistics information system
 JP 2089, Phase 2 – Tactical data links
 JP 2090, Phase 1C – Combined information environment
 Sea 1428, Phase 4 – Evolved Sea Sparrow Missiles
 Sea 4000, Phase 3 – ‘Air Warfare Destroyers’;
 Land 58, Phase 3 – Weapon locating radar life of type extension;
 Land 121, Phase 3A/B – Field vehicles, trailers and modules;
 Land 125, Phase 3 – Soldier Combat System
 Air 5276, Phase 8B – AP-3C Electronic Support Measures;
 Air 5376, Phase 2.3C – F/A-18 EWSP

And ..

A public version of the Australian Defense Capability Plan for 2006-2016 was released in June, outlining up to \$38 billion worth of new equipment acquisitions over this timeframe.

SO WHAT’S GOING ON WITH AIRCRAFT WHEN THERE’S NO-ONE AROUND?

- If all goes in the Parliament, construction will start in late-2006 on facilities construction to support Joint Project 129 (Tactical Unmanned Aerial Vehicle). The facility will also accommodate a new regiment, which will operate Boeing/IAI-Malat’s ‘I-View’ 250.
- Secret prototype tests have been taking place at Woomera, spearheaded by BAeA.
- Plans are underway to progressively replace Australia’s P-3C maritime patrol fleet with a mixed manned/unmanned fleet.
- General Atomics Aeronautical Systems has signed a contract with the Australian Department of Defense to see the GA Predator B UAV shipped to Australia in time to commence maritime surveillance demonstrations in August/September.
- The Australian Department of Defense has approval to commence formal negotiations to participate with the U.S. Navy in the cooperative development of a multi-mission unmanned aerial vehicle and surveillance system (MUAS) to undertake maritime surveillance and reconnaissance tasks. The Defense Department is hopeful of engaging Australian industry in the development of an integrated ground environment for MUAS.
- The 2006-2007 budget has provided funding for two trials of a mid-range UAV for coastal surveillance.
- A modified Australian UAV (Aerosonde) claims to have set an unofficial record of 38h 48m.
- U.S. company AAI Corporation has now acquired Aerosonde.
- Australia will conduct a trial of UAVs across Australia’s North West Shelf region in September 2006. GA Aeronautical Systems will provide a Mariner for flight tests to assess the potential of UAVs to operate under a joint, integrated surveillance capability in conjunction with patrol boats, and assess an additional layer of surveillance in Australia’s approaches.

BULLETS

- German company (Krauss-Maffei Wegmann (KMW) has reported that its Howitzer 2000 Tank has fired Denel-sourced long-range shells more than 34 miles during tests in South Africa. The result was achieved with six DM72 propellant system modules
- A BAE Systems-led team of Bofors, Rockwell Collins and L3 Communications BT Fuze Products Division, will participate in a six-month US Army technical development program for an Artillery Precision Guidance Kit, a low-cost system that will improve the accuracy of conventional 105mm and 155mm artillery projectiles. It has been speculated that it could be considered for Land 17
- Alliant Techsystems reports testing a cannon-fired Saber 155mm precision projectile to 29 miles, offering artillery batteries precision-fire capability with greater stand-off range than current 155mm artillery. Land 17 will include new 155mm guided artillery munitions

WARDROBE MALFUNCTIONS

Following reports of defective clothing and personal protective equipment, the Clothing Review Team commissioned by Defense Minister Nelson has provided evidence of deficiencies within the business practices, systems and management associated with the procurement of ADF clothing. The review made 29 recommendations, all of which have been agreed to. Some are already being acted upon by the Defense Materiel Organisation. Recommendations include - soliciting feedback from current and former soldiers about the quality of clothing and equipment, establishing a specialist office to manage acquisition and sustainment of clothing and personal equipment, ensuring certification of defense suppliers to make sure they can deliver, and providing for better engagement between defense and industry

The Australian Defense Science & Technology Organization has demonstrated samples of lightweight ballistic armour, developed under the Australian Capability & Technology Demonstrator program. The project is a collaborative arrangement applying new ceramic and composite materials and fabrication technologies to produce lightweight, low-cost, high-performance helmet and body armour for Australia's Defense personnel.

Minister Nelson also announced that in future, his Department would conduct industry forums for the clothing industry and form a new executive group to address governance issues. It will also introduce a soldier clothing and equipment capability plan for major acquisitions, and attend to the better management of intellectual property rights for clothing and equipment issues.

NATIONAL SECURITY

- A recent survey of Australians found that concern is high about terrorism, pandemics, Internet fraud/viruses and identity theft, but low about threats to personal safety
- The Australian Government is reviewing its electronic security national agenda on the premise that there have been significant changes in threat scenarios since its 2001 e-security agenda
- Australian Attorney-General Philip Ruddock has predicted the use of surveillance and tracking devices will increase following the first report of the operation of the Surveillance Devices Act, detailing arrests and prosecutions as a result of the use surveillance devices since the Act began operation on 15 December 2004
- Australian company Daronmont Technologies has a program to demonstrate a hand-held imaging sonar which has the potential to significantly change the way Navy Clearance Divers operate. Daronmont has secured access to U.S. company Material Systems Inc high performance broadband piezocomposite transducers and arrays which it will incorporate into their hand-held sonar design, expected to be demonstrated later next year
- Australian Prime Minister John Howard has confirmed the Government's proposal to proceed with a \$750 million, four-year introduction of a new access card for health and welfare services. The new access card system will feature a digital/biometric photograph to significantly enhance card identity security elements, protecting the cardholder's identity and reducing the opportunities for fraud

- The Australian Institute of Forensic Science is to be funded to undertake a project to improve in-field DNA testing and facilitate the identification of disaster victims. The project will develop a rapid and cost effective process for a test able to be used outside of forensic laboratories
- Transport & Regional Services will upgrade basic security measures at another ten Australian regional airports. Since March 10 2005, 147 regional airports have been designated as security-controlled airports. One USCS client is benefiting from the regional upgrades
- There will be a five-year expansion plan for the Australian Security Intelligence Organisation. ASIO's capability will be strengthened in a range of areas, to include: intelligence collection and assessment, surveillance, technical operations, border security and IT systems
- The 2006-2007 Budget provide for improvements in Australia's ability to respond to chemical, biological, radiological and nuclear incidents, in area such as personal protective clothing & equipment, decontamination, detection, rapid mitigation, and site restoration. Emergency Management Australia will administer the program
- Officials from Australia and the United States have met to develop opportunities for their respective research communities to collaborate on counter-terrorism technologies facilitated by two recent agreements. Australian Customs Service officers have discussed areas of interest, including physical security, explosives and weapons detection technology, and chemical, biological, radiological and nuclear detection
- The National Security Committee of the Australian Federal Cabinet has authorized the establishment of operation RESOLUTE to streamline Defense's contribution to whole-of-government efforts to protect Australia's Exclusive Economic Zone. It will consolidate current operations focusing on unauthorised arrivals, illegal fishing and smuggling, patrols of Australia's southern ocean, and patrols protecting Australia's gas and oil infrastructure.

SNIPPETS

Spaceport Won't Take Off

The plan to develop an Australian space industry on Christmas Island fueled by the Asia Pacific Space Centre has run out of gas. A promised \$75 million contribution from the Federal Government has been withdrawn. Without crucial government support, the potential 550- employee site, launching Russian rockets, will find it difficult to continue.

Meanwhile

Defense Minister Nelson has confirmed Government approval for the Department of Defense to investigate the building of a new satellite communications ground station to support the Department's 50% payload on the current SingTel/Optus C1 satellite. The new facility is expected to improve Australia's ability to use commercial and allied military satellites over the Indian Ocean for the support of deployed forces. Defense will shortly begin canvassing industry to identify suitable ground station and system suppliers.

Personnel Firewalls

The Australian Senate Estimates Committee has questioned defense officials appearing on the ethics of recent Defense Materiel Organization departures to industry. Career movers have gone in recent times to a number of prominent defense contractors. According to DMO chief, Dr Stephen Gumley, new separation guidelines are under development, to deal with any related probity issues.

Torpedoes Incoming

The first delivery of the new Mk. 48 heavyweight torpedoes for the Collins Class submarines is due to arrive in Australia during 2006-07. The torpedoes will be integrated onto the first sub during the year.

The C-17s

The first C-17 is scheduled for delivery to Australia in November, with deliveries continuing through February 2008. The Pentagon first announced plans to sell up to four Boeing long-haul C-17s and associated equipment to Australia in a mandatory notification to Congress in April. At the time, it put the overall value of the contract, which also includes night vision goggles and infrared countermeasures, at \$2 billion. The Pentagon said the US Air Force had agreed to modify the

schedule on which it is receiving its 180 C-17s to allow speedier delivery of four planes to Australia. The sale will give Australia a heavy airlift capability, for which it currently relies on the US Air Force or contract carriers using Russian aircraft.

New Zealand Defense Budget

New Zealand's 2006 Budget highlights for the forthcoming year will see the NZ Defense Force receiving extra funding to meet ten-year sustainability objectives. Capital projects include provisions for a part payment on the purchase of new helicopters to replace the 'Iroquois'/'Sioux' fleets, fitting out Defense Headquarters, re-building infrastructure and increasing reserve stocks. The capital allocation also funds an upgrade of the C-130H Hercules and P3K Orion fleets, further construction under Navy Project Protector and the purchase of specialist equipment for the Army

Need Legal Advice?

A local legal firm specializing in defense matters has contacted us offering support to U.S. companies who may need lawyers familiar with the Australian legal jurisdiction and have an understanding of the global defense and homeland security industries. It claims not to be a "mega-firm", but rather a niche specialist in this area, with competitive fees reflecting the fact it offers practical and pragmatic but high quality legal advice. The contact is Senior Associate Rod Evenden at www.whitecleland.com.au on email: rbe@whitecleland.com.au

L-3 Com Acquisition

US-based L-3 Communications has acquired the Australian firm Nautronix Defence Group. The business will be renamed L-3 Communications Nautronix Holdings Inc (L-3 Nautronix), and will be included in L-3's Sensors and Simulation Group. L-3 Communications Nautronix Ltd., will whilst continue to provide wireless long-range underwater communications, portable undersea test ranges, diver computers and electronic console map displays.

Ambassador to Australia

Robert D. McCallum, Jr. was sworn in as Ambassador of the United States of America to Australia on July 21, 2006. Ambassador McCallum previously was the Associate Attorney General, the third-ranking official at the United States Department of Justice, from July 1, 2003. He had earlier served from September 2001, as the

Assistant Attorney General for the Civil Division, the Department's largest litigating component.

Before entering government, Ambassador McCallum was a partner with the Atlanta, GA, law firm of Alston & Bird, specializing in trial and appellate practice. During his twenty-eight years with that firm, he was appointed by the Attorney General of the State of Georgia as a Special Assistant Attorney General, and he was the recipient of the Atlanta Bar Association Leadership Award in 2001. Ambassador McCallum has authored numerous legal articles and publications and also served as a lecturer on a variety of legal topics.

Tigers or Pussy Cats

A report by the Australian National Audit Office into the management of the 'Tiger' armed reconnaissance helicopter acquisition marked 14 out of 15 crucial areas of the helicopter's performance with an "X" for deficiency. The Auditor-General said the acquisition of the Tiger helicopters was supposed to be based on an off-the-shelf, low risk solution. The Tiger was chosen over the Apache in 2001, but is turning out to be an aircraft type more developmental than originally intended by the initial requirement. The Australian Defense Force has started accepting delivery of the fleet of French-made helicopters despite warnings that they are not safe to fly at night or in bad weather. The helicopters are also said to be underpowered, requiring the replacement of engines at an additional cost of \$80 million. The Audit Office added that the Australian Department of Defense has not produced a formal report on how it came to choose the Tiger over its rivals.

South Florida Defense Firms Meet with Australian Procurement Arm

On Tuesday, April 11th, 2006 a group of 30 defense and aerospace companies gathered to meet with Invest Australia, the Defense Materiel Attache of the Australian Embassy in D.C., and the Defense Industry Advisor of the Australian Embassy. The seminar focused on the additional \$50 billion in procurements and acquisitions coming in the Australian market over the next ten years. Visiting guests Lincoln Parker, Jim Gledhill, and Aurelio Azpiazu gave South Florida defense firms an in-depth overview of the defense sector in Australia, the types of opportunities to be expected in the future, and a basic how-to of participating in Australian government procurements.

Security Podcast

National Security Radio puts out regular podcasts containing discussions on defense and security issues in Australia (see last issue). Defense Focus connects up its MP3 player and downloads the programs from www.nationalsecurityradio.org.au

The producers tell us that they are now planning a TV show along the same lines, adding that if we know of any organizations that would like to be recognized as "This show is brought to you by...", to not hesitate in letting them know..

National Security Radio is a project of the Australian Homeland Security Research Centre, which undertakes independent, evidence-based analysis of domestic security issues, and is supported by its publications and professional development programs. It can be found at URL: www.homelandsecurity.org.au

TRADE EVENTS

Security 2006
Darling Harbor, Sydney
August 29 - 31 2006
www.asial.com.au
Visit the USCS at Booth 156a

Land Warfare Conference 2006

Brisbane, Queensland
October 24-27 2006
The Land Warfare Conference is a major event for users, providers, academics, designers and manufacturers to meet and present new and

visionary ideas on Land Systems to a focused audience in Australia.

<http://www.dsto.defence.gov.au/events/LWC/>

Asian Aerospace

Reed Exhibitions has confirmed its decision to move the Asian Aerospace show from Singapore to Hong Kong. The next, trade-focused, event will take place for the first time over the week of September 3-6 2007 at the Hong Kong Asia World Expo - <http://www.reedexhibitions.com.hk/>

The new Singapore Air Show will be staged at a new purpose-built facility at the Changi East air base from Feb. 19-24, 2008 -

<http://www.singaporeairshow.com.sg/>

Australian International Air Show

Avalon Airport, Victoria
March 20-25, 2007
www.airshow.net.au
"Breaking the Barriers"

"More than 550 leading companies and organizations are expected to exhibit their wares, technologies and services before an informed and focused international audience. Again the event is expected to attract more than 40,000 accredited trade visitors, among them key decision makers from government, the military and industry from throughout Australia, the region and, indeed, the world."

Contact USCS Sydney (phil.keeling@mail.doc.gov) or USCS Denver (danielle.dooley@mail.doc.gov) for information about USCS plans for participation in this show.

The U.S. Commercial Service



The U.S. Commercial Service is an agency in the Department of Commerce International Trade Administration. It was founded in 1980 to help U.S. companies, particularly small and medium-sized businesses, to make sales in international markets. The agency's network includes Export Assistance Centers throughout the United States, and more than 150 offices overseas. Its mission is: *"The Commercial Service shall place primary emphasis on the promotion of exports of goods and services from the United States, particularly by small businesses and medium-sized businesses, and on the protection of United States business interests abroad."*

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